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ABSTRACT

The objective of school-based budgeting (SBB) is to improve school funding by increasing revenues and reducing systemwide costs. To see whether this approach is more efficient than a centralized budgeting and spending plan, a cost-benefit model is presented here. The paper differentiates between SBB and school-based management, claiming that any failure on the part of the latter does not necessarily impugn SBB. Subsequently, SBB is carefully defined and is presented as the delegation of both responsibility and authority for a school's financial budget and spending decisions to an agent at the school site. The SBB administrative process is outlined, as is its objective: to maximize the discretionary funds available for education purposes. The model shows how to examine policy issues once SBB has been accepted, and it outlines conditions to consider when implementing SBB. The SBB school-site agent, the central-office retention limit, funding formulas, the scope of authority to be granted to the school-site agent, SBB accountability, the merits of a cost-benefit analysis, the benefits of SBB, and the monetary costs associated with this system are discussed. It concludes that SBB will not be effective in every school system, but the model outlined here can help in making that determination. Contains 20 references. (RJM)

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SCHOOL-BASED BUDGETING: A COST-BENEFIT MODEL

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ABSTRACT

The objective of School-Based Budgeting (SBB) is to improve school funding by increasing allocated revenues and reducing system-wide costs. This paper formulates a cost-benefit model to determine whether the adoption of SBB can be more efficient than centralized budgeting and spending. Policy issues regarding SBB goals and practices are discussed.

TEXT

School-Based Budgeting (SBB) is usually discussed in the context of the School-Based Management (SBM) strategy to increase educational productivity. The purpose of this paper is to make three policy arguments regarding SBB. First, SBB is an administrative budgeting process that is independent of the governance restructuring concept of SBM. Second, the primary objective of SBB is economic efficiency, i.e., increasing educational resources at the school sites and reducing system costs, which means, thirdly, that the decision to adopt SBB requires a cost-benefit analysis which is described in final part of this paper.

For many years, SBM has been heralded as a vehicle for school system restructuring. It has been implemented by statutory mandate in the United Kingdom in 1988, Chicago in 1989, and Kentucky in 1990. School system restructuring commentators have not found convincing evidence of SBM's ability to increase educational productivity, and still withhold judgment on the effectiveness of SBM. (Murphy & Beck, 1995). In the United States, SBM has met little success, and most implementations appear halfhearted. This should not justify rejecting SBB, which has a different purpose and an objectively measurable effect. There is nothing inconsistent with an SBM implementation failing to increase educational productivity, and the SBB component succeeding in increasing economic efficiency.

TERMINOLOGY.

There is wide variation in the decentralization terminology found in academic, legislative and school system publications. For purposes of this paper, SBB will be narrowly defined, and SBM will be broadly defined.

Under the traditional model of centralized budgeting, the central office performs a three-stage process. First, it estimates total system-wide revenue for the fiscal year. Second, it specifies expenditures for resources. And third, it allocates these resources to individual schools. SBB delegates the second and third phases of this process to the school level, and will be defined as the delegation of both responsibility and authority for a school's financial budget and spending decisions to an agent at the school site.

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It should be noted that the definition of SBB requires the delegation of authority. As pointed out by Hentschke (1988), "no change in budgeting occurs unless it can be described as an actual change in the formal authority of educators who are involved in budgeting" (p. 313).

SBM will be used as a broader concept of school management which in addition to budgeting includes school level responsibility and authority for non-financial decisions, such as personnel, curriculum, and scheduling. A related concept, Shared Decision-Making ("SDM"), which is often combined with SBM, will mean school-site management decisions are made by a school governing body, usually consisting of the principal, faculty, parents and community members. Thus, SDM imposes a shift away from the normal principal-dominated governance structure at the school level. In contrast, SBB does not change governance, but does require that central responsibility and authority for school-site budgeting and spending be delegated to a school-site agent.

SBB ADMINISTRATIVE PROCESS

Under SBB, the central office is responsible for forecasting system-wide revenue for the fiscal year. Once this task is completed the revenue total is divided between an amount retained to fund centrally administered programs, and an amount to allocate to the schools within the system.

Some programs, such as transportation, special and bilingual education, may be operated more efficiently by the central office. Similarly, specialized services, such as the legal department, need to be based at the central office. The method of allocating the non-central office portion of the total revenue generally considers several factors, and will be discussed in more detail later.

After the school allocation amounts have been calculated, the school-site agent decides how the allocated funds will be spent. SBB conveys the actual authority to transact purchases and short-term contracts. Examples of possible expenditure categories are personnel, training, curriculum materials, cleaning and maintenance.

SBB can be implemented without changing the management structure at the school site. If the school has not adopted SBM or SDM and the principal makes all school-site decisions, then this mode of operation can continue under SBB. Although it places the extra burden of school-site budget preparation and fiscal accountability on the principal, these responsibilities would normally be included in the principal's job description at an independent school or a charter school. The trade off is gaining control of expenditure decisions and the savings in the principal's time previously used to negotiate for resources with the central office under the traditional budgeting system.

SBB OBJECTIVE

The primary goal of SBB is to maximize the discretionary funds available for educational purposes at the school site. One way to accomplish this objective is to increase fund allocations to the schools, e.g., by reducing central office expenses and to transfer the savings to the schools. Another way is to reduce systemic costs, e.g., by transferring spending decisions to a school-site agent who can make better spending decisions for the school.

It is unrealistic to expect SBB to improve educational outcomes, although it seems that any successful implementation of SBM must also include a successful implementation of SBB, and, therefore, it is often a necessary and important step in implementing SBM. But the SBB focus should be limited to the field it is intended for, i.e., school-site finance, and SBB must be

judged on a financial cost-benefit basis. It is inappropriate to demand that SBB improve educational productivity, although many SBM advocates, without distinguishing SBB from SBM, expect this result.

Some commentators have stated that the purpose of SBB is not "cost savings," but is increased educational production. (Wohlstetter & Buffett, 1992, p. 135). It is not clear what is meant by "cost savings," and who will benefit from the savings: the taxpayers, the central bureaucracy, or the schools. The rejection of the first and second alternatives is understandable, and probably intended by the commentators, but this paper takes the position that the third alternative is the proper objective of SBB.

R. E. Callahan's book "Education and the Cult of Efficiency" (Callahan, 1962) may have caused an aversion among educators to the term "efficiency," since the book presented negative images and conclusions about the application of "scientific management" to school system administration. This historic perspective should not deter school systems from attempting to improve their funding efficiency, particularly when the funds are controlled by schools instead of the central office.

No claim is being made that increasing education funds at the school will result in better educational spending. As expressed by Elmore (1993), "one cannot assume that just because resources are being used at the school level, they are being efficiently allocated for maximum impact on students' learning" (p. 50). But at least each school, whether or not it can optimally allocate its resources, should have more funds, and with appropriate accountability some, if not all, will eventually develop an effective budget for its students' needs.

Other SBB objectives are often mentioned in school system implementation publications and SBM literature - presumably to justify the SBB process. For example, an often stated goal is to improve school leadership. Other proffered objectives are to improve school-level ownership of purchased programs. Sometimes, there is an expectation that increased discretionary funds at the school will encourage educational innovations and fund-raising at the school site. Except fund-raising, these objectives are not economic ones, and the anticipated results are not easily measurable. These types of objectives are more appropriately included with the SBM goal of increased educational productivity.

The objective of encouraging school fund-raising is important if centrally allocated funds are insufficient to maintain essential school programs. To provide fund-raising incentive, the SBB process must permit the schools to retain surpluses and not deduct the fund-raising amounts from the school funding allocation. The effectiveness of school fund-raising, however, may be dependent on each school's socioeconomic circumstances, a situation which may create legal issues concerning intradistrict equity.

POLICY ISSUES

After the SBB objective has been accepted, there are related policy issues which must be resolved in light of the SBB commitment to maximizing economic efficiency.

IMPLEMENTATION

If SBM is in force then the terms of its implementation may determine how SBB can be implemented. Where the SBM plan is silent, or SBM is not adopted, it can be implemented involuntarily by mandate or voluntarily by inducement. Since increased funding to the schools occurs in part through reductions in central office staffing, implementation by mandate is usually the preferred option. Otherwise, the system will have to maintain an inefficient dual system with

some schools using SBB and others relying on the central office to dictate the budget and purchases. SBB adoption, however, requires time for planning the system-wide implementation, and larger school systems may prefer to first convert a few pilot schools to discover and resolve any unforeseen problems before converting all schools in the system.

Since School-Based Budgeting is an administrative procedure, a school system can implement it by issuing a directive to its central office to change administrative practices. If there is teachers' union opposition to SBM or SDM adoption, SBB, as an administrative procedure, can be implemented without affecting the teachers' collective bargaining agreement.

Also, it is possible to mandate SBB on a state-wide basis. This was done by Kentucky in its 1990 reform legislation.

However, it is not a truism that SBB is always more efficient than centralized budgeting. A cost-benefit study, discussed later in this paper, is needed to analyze the probable efficiency results of a particular implementation of SBB.

There has been little attention paid to SBB without SBM. School systems contemplating restructuring without adopting SBM should consider the SBB approach. While SBB does not have the same objective as SBM, the fact that the SBB process will control educational resources available at the school sites can result in a major impact on the management and operation of the schools, since whether programs supporting a school goals and objectives are implemented will depend on their funding. Thus, SBB alone can have a substantial effect on the educational character and direction of schools. In practice, SBB can be considered as an abridged version of, or first step to adopting, SBM with its educational impact resulting from the local control of school resources.

SBB SCHOOL-SITE AGENT

There are three candidates for the position of the SBB school-site agent who will be responsible for preparing and maintaining the budget: (a) the principal, (b) a teacher or group of teachers, (c) a school council composed of teachers, parents, community members and the principal.

The choice may depend on whether SBM (or SDM) has been adopted at the school. If not, then the principal is the logical party to appoint as agent. The principal may already be managing a small amount of the school finances, e.g. to purchase supplies, and the principal's job description is likely to include a descriptor such as "school management." Budget control gives the principal significant leadership and empowerment opportunities, factors which are consistent with the characteristics found in the effective schools literature. (Purkey, 1983). Also, it will be easier to train the smaller and more stable population of principals than teachers or school council members. This appointment, however, may not work well under SDM, where Weiss & Cambone (1993) found the governance structure was designed to reduce the principal's power.

Appointing a teacher as the SBB school-site agent may be problematic, because the teacher responsibilities and work rules are usually dictated by a collective bargaining agreement. More realistically, as Weiss, Cambone & Wyeth (1991, April) found, the teachers may not want the budgeting responsibility due to lack of skills and/or interest.

If SDM is in effect then the terms of the SDM governance document may require that a school council be the responsible agent. This is the case in England, where the school governing body, not the principal, is responsible for the SBB process at the school. (Department for Education, 1994). However, this option requires that a complex school governance arrangement

be established and maintained. This will increase the expenses of continuous central office support and periodic training of school council members.

CENTRAL OFFICE RETENTION LIMIT

If school-site funding is to be increased by reducing central office funding, then it is necessary to limit the amount of system-wide resources to be retained by the central office. This may be phased in by using a table of decreasing retention percentages to be effective over future years. England has successfully adopted this approach since 1988. The Local Education Authority ("LEA"), which is similar to school districts in the United States, must calculate the amount available for system operations and is permitted to retain only 15% of it. (Department for Education, 1994, p. 24). Under delegation, the LEA was required to pass through to the schools 85% of the funds not used for capital funds, debt funds, and special LEA programs. Some SBB implementations in the United States have not imposed any central office retention limit. This reflects a failure to fully commit to an economic efficiency objective.

Some recoupment of the funds allocated to the schools is possible by charging fees for central office services to the schools, e.g., payroll processing. To accomplish this, the central office staff must be reengineered to think like service providers to their clients, the schools, i.e., to become client-oriented, not control-oriented.

FUNDING FORMULA

The most technical task of SBB is to determine the allocation amount to fund each school. This requires the development of an allocation funding formula that for political reasons must be perceived as equitable.

The simplest formula is a uniform per pupil allocation. However, adjustments will have to be made for variables such as the age of the school, the size of the school, the grade levels in the school, the past inequities suffered by the school, and the length of service of the faculty at the school. The allocation formula becomes complicated as it is adapted to local conditions.

For example, in England each LEA is given the authority to design the allocation formula by which it funds the schools. (Department for Education, 1994, p. 30, paragraph 102). Following the theory that the LEA knows best what is appropriate for the schools in its jurisdiction, the national government prescribes minimal requirements regarding the formula. The LEA has little discretion to allocate by other than a student-based type of formula. For example, the funding formula may provide for a minimum floor amount to be allocated to each school so that the smaller schools are not disadvantaged. The rule of "money following pupils" is followed, so when a student transfers to a new school, the school of origin must transfer a proportionate share of the allocated funds to the new school. (p. 35-36, paragraph 123-128).

Another example is Edmonton, which has a strict student-based funding formula for eight levels of student types ranging from regular students to seven categories of students with special needs. (Edmonton Public Schools, 1996a and 1996b).

The funding formulas employed in Chicago and Kentucky are statutorily prescribed by state law. Both systems have adopted a staff-based funding formula, in which the prior year staff budget is adjusted for changes in school enrollment. (Illinois School Code, 1993; Kentucky Revised Statutes, 1994). If the school is required to actually budget staff according the central office formula then this approach is not consistent with the SBB efficiency objective. The school should be free to decide its own staffing needs and personnel budget once its lump sum allocation is determined by the central office.

SCOPE OF AUTHORITY

A policy decision must be made to define the scope of spending authority exercisable by the school-site agent. If the school is viewed as a decentralized profit and loss center as in the private sector, the school-site agent is responsible for the operating results of the school, and must be given maximum budget responsibility and authority to respond to school's needs and to take advantage of local economic and educational opportunities. In most school systems, the major limitation to this spending authority will be the hiring and termination of the school's teachers whose terms of employment are governed by a system-wide collective bargaining agreement.

The school, as in the profit and loss model, should not be responsible for capital expenditures. This is the responsibility of the school system. Other items, such as maintaining reserves, staffing (subject to any collective bargaining agreement), hiring of substitute teachers, utilities, and professional development, should be controlled by the school-site agent.

Besides spending authority, the SBB implementation must address whether schools will be permitted to save and carryforward savings to the next fiscal year without offsets in the subsequent year's allocation. As mentioned before, the ability to save can serve as a school incentive to engage in local fund-raising. Similarly, SBB policy must address how a school operating loss is dealt with.

The SBB system in England provides the maximum autonomy to its schools, which even have the authority to make capital expenditures. Schools also have a "virement" power to change amounts in different budget categories without obtaining permission from the LEA. (Department for Education, 1994, p. 40, paragraph 145). Budget savings are retained by the schools. See also Knight (1993) and Davies & Ellison (1992) for a description of SBB in England.

Toward the opposite end of the authorization spectrum, the SBB system implemented in Kentucky provides funding to four categories: certified staff; classified staff; instructional supplies, materials, travel and equipment; and professional development. (Kentucky Department of Education, 1996, p. 6a). There is limited ability to change budget category amounts. For example, a school cannot create a staff position. (p. 46, Question 20). Local board policy decides whether a school can carryforward funds into the next fiscal year (p. 49, Question 34). Also, SBB as defined in this paper is not mandatory. (p. 3).

In the Boston Public Schools, SBM and SDM were introduced through its collective bargaining agreement with the Boston Teachers Union. The agreement provides for each school to form a School Site Council whose role is "to manage all matters that relate to the operation of the school, including ... budgeting ..." (Agreement between the School Committee of the City of Boston and the Boston Teachers Union, Local 66 AFT, AFL-CIO, 1994, pp. 17-18). However, the budget for the fiscal year 1996-1997 contains a formula for allocating all school staff positions, based on the school level and student population. (Boston School Committee, 1996, pp 101-103). This approach deprives the school of the authority to decide the staffing best suited for its particular needs. Since personnel cost is more than half of a school budget, the school principals are left with very little to budget, a situation which renders the budgeting process "meaningless" to them (Wilson, 1992, p. 168). Sizer (1992) described such a result as "a cruel joke" (p. 187).

Many school systems in the United States are subject to procurement laws which are designed to safeguard the process of making large purchases by government agencies. These

rules and regulations generally apply to the schools, and unfortunately, represent a source of inefficiency.

SBB ACCOUNTABILITY

Under SBB, the school-site agent is accountable for educational expenditures. This financial accountability differs from the more general and less well defined SBM accountability concept described in Elmore (1993).

Financial accountability is accomplished by monitoring the agent's spending, and adjusting it when necessary. For example, if all expenditure checks are issued by the central office, with the spending decision made by the school-site agent, it is possible to prepare monthly reports at the central office to monitor school budget variances.

Given the goal of economic efficiency, it is possible to devise simple benchmarks to objectively measure performance. On an annual basis, the school-site agent's results can be judged in part by comparing the amount or percentage of school-site educational expenditures with previous years school figures or system averages.

To report system-wide SBB performance and progress on an annual basis, a system operating statement should be prepared which groups expenditures into two sections: one for central office expenditures, and the other for school expenditures. A column for percentage of total revenue should also be provided, as well as another column for comparison with the prior year figures.

The school system governing body must establish a policy for sanctions and remedies to be employed in the event a school agent fails to adequately perform the SBB tasks. Causes for sanctions might be misappropriation of funds, failure to realistically budget, failure to consult with faculty in preparing the school budget, failure to spend educational funds, or other bases as appropriate to the school system. Of course, adequate time and training must be afforded to the agent to gain competence with the budgeting and spending process.

In England, the main form of sanction is to disempower the governing body of the school. However, if the failure is due to the principal, the LEA has no direct authority to remove the principal, since this is the responsibility of the school's governing body. Instead, the LEA must recommend that the school's governing body remove the principal. If the governing body refuses, the LEA must disempower the governing body, take control of the school, and then remove the principal. (Department for Education, 1994). A similar situation is provided in the Chicago school system. (Illinois Compiled Statutes Annotated, Chapter 105, Sec. 5/34-2.3, 1993 & Supp. 1996).

COST-BENEFIT ANALYSIS

If economic efficiency is the objective of SBB, then a cost-benefit study can determine the feasibility of adopting SBB. The purpose of this section is to formulate a cost-benefit model to be employed in such a study, whose goal is to estimate whether a particular school system can expect increased system-wide efficiency in the form of increased total school-level educational funding.

The benefits and costs to be analyzed for SBB implementation should be their differential monetary values compared with the same benefits and costs under a centralized budget and spending system. For example, if staff cost under the centralized system is A, and the expected cost after SBB is adopted is B then the relevant differential cost is B - A .

BENEFITS

The benefits of SBB can be classified into two categories: monetary and nonmonetary. A benefit whose incremental can be determined and classified as a specific line item is monetary, otherwise, it is nonmonetary. And a monetary benefit which can be budgeted with near certainty is further subclassified as certain, otherwise, it is subclassified as uncertain. In performing a cost-benefit study to implement SBB, only the certain monetary benefits should be used.

The commonly cited certain monetary benefits are (1) increased funding to the school site, and (2) increased purchasing power at the school site. Additional funding to the school site will result from eliminating central office budget and business services which will be performed at the school site. While it is common to argue that centralizing these functions is more efficient due to the economies of scale, it can also be argued that this is offset by the costs in time and money of maintaining a bloated central office bureaucracy.

Increased purchasing power at the school site is a result of the local knowledge at the school site and not available to the central office. An example is school maintenance. A school may be able to negotiate with a local business for a service that is more favorably priced and responsive than the service provided by the central office, where maintenance workers usually command union wages and work pursuant to union rules.

Elmore (1993) noted that some centralization may be recreated due to group purchases by schools to take advantage of economies of scale. This does not necessarily imply, however, full restoration of centralization. The purchase decision is still made by each school, and those schools not wishing to participate, need not. Often, it may be more efficient for similarly-situated schools to form networks to share common purchases and information. This reduces costs and inefficiencies that often plagues centralized budgeting and purchasing operations due to reliance on poor information.

Some uncertain monetary benefits are (1) savings in site costs, and (2) increased school level fund-raising. It is often stated that once the school personnel are aware of the operating costs, and perceive a benefit to the school site if costs are reduced (and the savings used for other school resources) then a conscious effort will be made at the school level to reduce wastage and unnecessary costs. Also, if the school-site stakeholders are aware of the fixed revenue limitations of the central office funding formula, they may organize fund-raising activities, increase parent volunteers, and solicit partnerships with local businesses.

Although nonmonetary benefits are not counted in a cost-benefit calculation, they may constitute some of the most compelling selling points of SBB to the school personnel. For example, SBB can provide control over the impact of yearly changes in the funds allocated to the school. In particular, control over selecting the programs to expand when funding increases, and the programs to downsize or eliminate when funding decreases may be very desirable. Another nonmonetary benefit may be increased parental involvement, and increased cooperation from teachers, both resulting from knowledge of the financial circumstances and limitations of the school's resources, as well as from increased local school control of resources.

COSTS

It is assumed that all costs are monetary, and it is informative to classify the costs as either recurring or nonrecurring. The nonrecurring costs are those which are determined with certainty to be one-time only, all other costs are recurring. In addition, each of these cost

categories can be further divided into school and central costs. The school costs are those costs incurred to directly benefit the school site, e.g., instructional supplies. Central costs are all other costs usually associated with nonallocable system expenses.

The training of school personnel, e.g., the principals, to operate SBB at the school sites, is an example of a recurring site cost. Check-writing can be a recurring site cost, and a decision must be made about how the check-writing will be administered: in-house at the school site, externally through a local accounting service, or through the central office on a fee for service basis. The setup of computer software and hardware to enable on-site budgeting, bookkeeping and check-writing is a nonrecurring school cost.

The retraining of the central office staff to perform new service-oriented functions will be a nonrecurring central cost, as is the turnover costs due to employees who cannot adapt to the change. The need to reprogram software, and possibly to purchase new hardware, may be a major nonrecurring central cost. If an electronic network is employed to tie the schools' computers to the central office computer, then the server software costs should be treated as a central cost, whereas the client software should be a school cost. The central cost of central office personnel to monitor the SBB process will be recurring.

It is possible for a cost-benefit analysis of SBB to yield a negative result. Two causes of SBB failure are (1) lack of significant efficiency opportunities, and (2) poor implementation.

Lack of efficiency opportunities means that the central office budgeting operation is as efficient as the best SBB implementation. For example, this might be the case in a one-school system, where the central office and school site are practically the same. It might also happen where a system has already so drastically downsized the central office that no further savings are possible through central office staff reductions. Another possibility might be the inability of local schools to buy cheaper local services, e.g., in some rural or inner city schools. Also, if a system is small and all schools have identical operations, e.g., an elementary school district in which all of its schools are about the same size, then a central budget administration may prove more efficient.

Poor implementation can be caused by a number of failures at the central office or at the school site. For example, the failure to establish a low maximum retention limit on central office funds can result in wastage of funds that should have been passed on to the schools. Also, the failure to properly train or monitor the school-site agents can result in school site and central office inefficiencies.

SUMMARY

School-Based Budgeting is a decentralization of a school system's budgeting and spending functions, by devolving both responsibility and authority for these functions to school-site agents. The goal of School-Based Budgeting is economic efficiency, i.e., to maximize the funds controlled by the school-site agent for school-level educational expenditures, not educational productivity. It cannot be assumed that School-Based Budgeting will be effective in every school system, and the proposed cost-benefit model should be applied to the particular facts and circumstances of a school system before adopting it.

Notes

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